

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**SEATTLE HIGH RISE REHABILITATION  
PHASE III, L.P.**

DECEMBER 31, 2008

Seattle High Rise Rehabilitation Phase III, L.P.

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## INDEPENDENT AUDITORS' REPORT

To the Partners  
Seattle High Rise Rehabilitation Phase III, L.P.

We have audited the accompanying balance sheet of Seattle High Rise Rehabilitation Phase III, L.P. as of December 31, 2008, and the related statements of operations, partners' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle High Rise Rehabilitation Phase III, L.P. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Reznick Group, P.C.*

Atlanta, Georgia  
March 18, 2009

Seattle High Rise Rehabilitation Phase III, L.P.

BALANCE SHEET

December 31, 2008

ASSETS

Investment in rental property, net	\$ 22,491,307
Cash	17,802
Restricted cash	
Tenants' security deposits	78,799
Replacement reserve	185,148
Other reserves	8,448,065
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Total restricted cash	8,712,012
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Tenants' accounts receivable	19,592
Prepaid expenses	2,149
Due from affiliates	355,234
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Total assets	\$ 31,598,096
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LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities	
Accounts payable - operations	\$ 70,589
Other accrued liabilities	37,533
Tenants' security deposits liability	84,378
Payable to general partner and affiliates	9,966,173
Developer's fees payable	278,949
Mortgages and notes payable	19,950,000
Other liabilities - construction	1,193,914
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Total liabilities	31,581,536
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Contingencies	-
Partners' equity (deficit)	16,560
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Total liabilities and partners' equity (deficit)	\$ 31,598,096
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See notes to financial statements

Seattle High Rise Rehabilitation Phase III, L.P.

STATEMENT OF OPERATIONS

For the year ended December 31, 2008

Revenue	
Rental income	\$ 3,390,499
Vacancies and concessions	(147,688)
Other operating income	<u>75,663</u>
Total revenue	<u>3,318,474</u>
Operating expenses	
Salaries and employee benefits	577,364
Repairs and maintenance	1,327,362
Utilities	434,073
Property management fee	375,509
Property insurance	164,004
Miscellaneous operating expenses	<u>346,561</u>
Total operating expenses	<u>3,224,873</u>
Net operating income (loss)	<u>93,601</u>
Other income (expense)	
Interest income	192,804
Interest expense - first mortgage	(151,980)
Interest expense - other loans	(244,777)
Other financial income (expense)	(110,684)
Miscellaneous other income (expense)	(15,170)
Depreciation	<u>(280,962)</u>
Total other income (expense)	<u>(610,769)</u>
Net loss	<u><u>\$ (517,168)</u></u>

See notes to financial statements

Seattle High Rise Rehabilitation Phase III, L.P.

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

For the year ended December 31, 2008

	General Partner	Special Limited Partner	Investor Limited Partner	Total Partners' Equity (Deficit)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance, January 1, 2008	\$ 99	\$ -	\$ 533,629	\$ 533,728
Net loss	<u>(52)</u>	<u>-</u>	<u>(517,116)</u>	<u>(517,168)</u>
Balance, December 31, 2008	<u>\$ 47</u>	<u>\$ -</u>	<u>\$ 16,513</u>	<u>\$ 16,560</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>0.00%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

Seattle High Rise Rehabilitation Phase III, L.P.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (517,168)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation	280,962
Changes in:	
Tenants' accounts receivable	(9,936)
Prepaid expenses	(2,149)
Other assets	6,345
Accounts payable - operations	44,353
Other accrued liabilities	23,105
Accrued interest - first mortgage	(11,289)
Accrued interest - other loans	(19,740)
Tenants' security deposits liability, net	<u>4,002</u>
Net cash used in operating activities	<u>(201,515)</u>
Cash flows from investing activities	
Expenditures on rental property	(9,210,376)
Change in reserve for replacements	(185,148)
Change in other reserves	<u>11,056,920</u>
Net cash provided by investing activities	<u>1,661,396</u>
Cash flows from financing activities	
Due from affiliates	(1,399,370)
Developer fees paid	<u>(43,451)</u>
Net cash used in financing activities	<u>(1,442,821)</u>
Net increase in cash	17,060
Cash, beginning	<u>742</u>
Cash, end	<u><u>\$ 17,802</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u><u>\$ 427,786</u></u>
Supplemental schedule of non-cash investing and financing activities	
Increase in rental property	\$ (1,193,914)
Other liabilities - construction	<u>1,193,914</u>
	<u><u>\$ -</u></u>

See notes to financial statements

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Seattle High Rise Rehabilitation Phase III, L.P. (the Partnership) was formed as a limited partnership on September 14, 2007, under the laws of the state of Washington, for the purpose of acquiring, constructing, developing and operating a low-income residential housing project. The property consists of 586 rental units located in Seattle, Washington.

Effective December 19, 2007, the partnership agreement was amended to admit the substitute limited partner and to permit the withdrawal of the original limited partner. This amendment provides for ownership and allocations of profits, losses and tax credits as follows:

Special limited partner	.00%
General partner	.01%
Limited partners	99.99%
	<u>100.00%</u>

The general partner is Seattle Housing Authority (SHA), the investor limited partner is Boston Capital Corporate Tax Credit Fund XXIX, L.P. and the special limited partner is BCCC, Inc.

The Project consists of 7 buildings which have qualified for low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. In addition, the Partnership has executed a land use restriction agreement which requires the utilization of the Project pursuant to Section 42 for a minimum of 99 years, even after disposition of the Project by the Partnership.

The partnership agreement remains in effect until December 31, 2106.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable and Bad Debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Investment in Real Estate

Rental property is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of the buildings, land improvements and equipment to operations over their estimated useful lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Rental property, net is comprised of the following at December 31:

Buildings and improvements	14,878,035
Construction in process	<u>7,910,972</u>
Subtotal	22,789,007
Accumulated depreciation	<u>(297,700)</u>
Net	<u><u>\$ 22,491,307</u></u>

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset impairment losses have been recognized during the year ended December 31, 2008.

Amortization

Mortgage costs will be amortized over the terms of the related mortgage loans using the effective yield method upon commencement of operations. Tax credit monitoring fees will be amortized over the 15 year compliance period using the straight-line method.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and tenants of the property are operating leases.

Advertising

The Partnership's policy is to expense advertising costs when incurred.

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

Uncertainty in Income Taxes

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. The effective date of FIN 48 was for fiscal years beginning after December 15, 2006. The effective date was delayed in 2007 and was delayed again in 2008 for nonpublic companies. The new effective date for FIN 48 for nonpublic companies is for fiscal years beginning after December 15, 2008. The Partnership has elected to defer application of FIN 48, as permitted by FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," until 2009. The Partnership does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Partnership's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which pass-through entities such as the Partnership will need to apply the provisions of FIN 48.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CAPITAL LEASE

On December 19, 2007, the Partnership entered into a capital lease with the Housing Authority of the City of Seattle for the building and the improvements of the Project. The lease agreement ends on December 31, 2106. Payments are required under the lease in the amount \$10,510,573. According to the lease agreement, on the date the investor limited partner makes its first, second, third and fourth contribution per the partnership agreement, lease payments in the amount of \$544,400, \$2,598,945, \$521,330, and \$6,845,898, respectively, are required to be paid to the Housing Authority of the City of Seattle. The Partnership shall be entitled to all of the tax attributes of ownership, including the right to claim depreciation or cost recovery deductions and the right to claim the low-income tax housing tax credit described in Section 42 of the Code. In addition, the Partnership shall

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

have the right to amortize capital costs and claim any other federal tax benefits attributable to improvements and equipment. The Partnership is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. As of December 31, 2008, the first lease payment of \$544,400 has been made. As of December 31, 2008, the outstanding balance is \$9,966,173.

Aggregate annual maturities of the lease payable over each of the next five years as of December 31, are as follows:

2009	\$	2,598,945
2010		521,330
2011		6,845,898
2012		-
2013		-
Thereafter		-
Total		<u>9,966,173</u>
Less interest		<u>-</u>
Net capital lease payable	\$	<u><u>9,966,173</u></u>

Assets held under the lease agreement include the following:

Buildings and improvements	\$	10,510,573
Accumulated depreciation		<u>(297,700)</u>
Total assets held under lease	\$	<u><u>10,212,873</u></u>

NOTE 4 – ESCROW DEPOSITS AND RESTRICTED RESERVES

Replacement Reserve

In accordance with the terms of the Partnership Agreement, the Partnership is required to make annual deposits of \$184,590 to the replacement reserve. As of December 31, 2008, the balance of the replacement reserve is \$185,148.

Funds Held in Escrow

The proceeds from the issuance of the Variable Rate Bonds were deposited into an escrow account maintained by Bank of New York Trust Company. The reimbursement agent is Bank of America. Under the Loan Agreement 1 & 2, the proceeds of the Variable Rate

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Bonds of \$19,950,000 are to be disbursed in accordance with the Trust Indenture. The funds held by the Bank of New York Trust Company are invested in accordance with the Trust Indenture. The trust account is stated at cost, which approximates the market value. The proceeds from the Variable Rate Bonds have been deposited into a construction fund to be used to fund approved development costs. The balance of the fund at December 31, 2008 is \$8,448,065.

NOTE 5 – RELATED PARTY TRANSACTIONS

Management Agreement

On December 19, 2007, the Partnership entered into a management agreement with Seattle Housing Authority. Per the agreement, the owner will pay the agent a monthly fee that will cover the actual costs incurred to manage the properties based upon services rendered. For the period ended December 31, 2008, \$375,509 of management fees have been earned and paid.

Development Services Fee

On December 19, 2007, the Partnership entered into a development services agreement with the general partner for services in connection with the development of the Project. The development services agreement provides for a fee equal to \$1,075,000. The fee will be capitalized into the cost of the building. As of December 31, 2008, \$601,349 has been incurred and \$278,949 is payable.

Investor Services Fee

Under the partnership agreement, an annual investor services fee of \$7,500, and increasing each year by a factor equal to the percentage increase in the consumer price index for such year, beginning in 2009, as defined. Any unpaid fees shall accumulate to the extent cash flow, as defined, is not available to pay such fee. No fee shall be deducted as an expense by the Partnership until such amount is actually paid. As of December 31, 2008, no investor service fee has been paid.

Partnership Management Fee

The Partnership shall pay an annual noncumulative partnership management fee of \$7,500 to the general partner for services in managing the business of the Partnership. The fee will be increased each year by a factor equal to the percentage increase in the Consumer Price Index for such year and payable from cash flows, as defined. The fee shall commence in 2009. As of December 31, 2007, no fees were incurred.

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Due from Affiliates

During the year ended December 31, 2008, the Partnership advanced funds to an affiliate in the amount of \$355,234. This advance does not bear interest and is payable on demand.

Ground Lease

On December 19, 2007, the Partnership entered into a ground lease with the Housing Authority of the City of Seattle. The lease agreement requires annual payments of \$1, payable on or before December 10, 2007, and thereafter on or before January 1 of each year, commencing January 1, 2008 and is being accounted for as an operating lease. The Partnership is liable for all payments of insurance and utilities that are in connection with the development, construction, and operation of the project during the term of the lease.

NOTE 6 - CONSTRUCTION CONTRACT

SHA entered into a construction contract on behalf of the Partnership in December 2007 with WG Clark Construction Company for construction services of the Project in the original amount of \$14,417,343 plus change orders of \$156,049. As of December 31, 2008, \$1,193,914 remains payable.

NOTE 7 - MORTGAGES AND NOTES PAYABLE

SHA Loan #1

The Partnership entered into an additional loan agreement on December 19, 2007 with the Housing Authority of the City of Seattle in the original estimated amount of \$8,200,000. The note was funded with proceeds derived from unrestricted authority funds. The loan accrues interest at 5.04% during rehabilitation and 4.25% thereafter subject to increase during that period by 2% per annum if the interest rate on the bond is so increased and 4.25% per annum thereafter. Payments of principal of and interest on the loan shall be made annually from cash flow. The unpaid principal and accrued interest are due on December 19, 2047. The loan is secured by the deed of trust. The outstanding loan balance and accrued interest at December 31, 2008 are \$8,200,000 and \$-, respectively.

SHA Loan #2

The Partnership entered into a loan agreement on December 19, 2007 with the Housing Authority of the City of Seattle in the original estimated amount of \$11,750,000. The note was funded with proceeds provided to the general partner through Capital Fund Program Revenue Bonds, 2007 (High Rise Rehabilitation Program – Phase III). The loan accrues

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

interest at 5.04% during rehabilitation and 4.25% thereafter subject to increase during that period by 2% per annum if the interest rate on the bond is so increased and 4.25% per annum thereafter. Payments of principal of and interest on the loan shall be made annually from cash flow. Any unpaid principal and accrued interest are due on December 19, 2047. The loan is secured by the deed of trust. The outstanding loan balance and accrued interest at December 31, 2008 are \$11,750,000 and \$-, respectively.

Aggregate annual maturities of the mortgages payable over each of the next five years as of December 31, are as follows:

	<u>SHA Loan #1</u>	<u>SHA Loan #2</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	-	-	-
2011	-	-	-
2012	-	-	-
2013	-	-	-
Thereafter	<u>8,200,000</u>	<u>11,750,000</u>	<u>19,950,000</u>
Total	<u>\$ 8,200,000</u>	<u>\$ 11,750,000</u>	19,950,000
Less current maturities			<u>-</u>
Net long-term portion			<u>\$ 19,950,000</u>

NOTE 8 - PARTNERS' CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the investor limited partner is required to contribute \$10,888,001. Of this amount, \$544,400 was received in 2008. The remaining installments are due as follows:

1. \$3,266,400 shall be paid upon the later of the 90 percent completion date, receipt of an updated title policy, and receipt by the special limited partner a series of events as described in the partnership agreement;
2. \$544,400 shall be paid upon the later of a series of events as described in the partnership agreement;
3. \$6,532,800 shall be paid upon the later of (a) receipt by the investment limited partner of state designation, (b) rental achievement, (c) the initial 100 percent occupancy date, (d) permanent mortgage commencement, (e) receipt by the investment limited partner of the initial compliance audit which shows no material noncompliance, or (f) June 1, 2010.

Seattle High Rise Rehabilitation Phase III, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on such accounts.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Tax Credit Compliance

The Project's low-income housing tax credits will be contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.

Operating Reserves

Under the partnership agreement, the Partnership is required to fund an Operating Reserve equal to \$1,061,399 to be funded from the Investor Limited Partner's Fourth Installment of its Capital Contribution. In addition, the General Partner, if needed shall cause the Partnership to draw down proceeds of the first mortgage loan to fund the Operating Reserve. As of December 31, 2008, no amounts have been funded.